

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
June 18, 2004
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Karl Polen, Chairperson of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Karl Polen, Chairperson
Ms. Charlotte Borchert
Mr. Jaime Gutierrez
Ms. Anne Mariucci
Dr. Keith Meredith
Mr. Michael Townsend
Mr. Lawrence Trachtenberg
Mr. Steven Zeman

Absent: Mr. Jim Bruner

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the May 21, 2004 Regular Meeting of the ASRS Board

Motion: Ms. Charlotte Borchert moved to approve the minutes of the May 21, 2004, Regular meeting of the ASRS Board.

Mr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Approval of Consent Schedule

Motion: Ms. Charlotte Borchert moved to approve Refunds, Death Benefits, Retirements, and Transfers,

And

Approve the Application and Agreements with the following employers:

- City of Maricopa
- Town of Payson
- Starshine Academy
- Groom Creek Fire District,

And

Approve the Notice of Docket Opening for Employer Membership,

And

Approve the extension of the Mid Cap investment manager contracts.

Dr. Keith Meredith seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding Retiree Medical Benefits Program Request for Proposal (RFP)

Ms. Charlotte Borchert, Chairperson, Operations Review Committee (ORC), asked if the Board had any questions regarding the ORC's recommendation or the materials pertaining to the Retiree Medical Benefits Program RFP. Trustees of the ASRS Board had no questions.

Motion: Ms. Borchert moved to award the contract for the Retiree Medical Benefits Program to PacifiCare of Arizona and award the contract for prescription drug discount card services to ScriptSave, Inc.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Patrick Klein, ASRS Contracts Manager, and Ms. Michelle Taylor-Brklacich, Consultant, Watson Wyatt, provided a presentation regarding the ASRS and national health care cost drivers, the ASRS' goals for retiree medical coverage, and the RFP process.

Mr. Joel Wirth representing Chandler Unified School District requested to speak about the Retiree Medical Benefits Program. Mr. Wirth stated that quality of service is an issue that he often hears about from retirees. He inquired as to how the issue of quality of service was dealt with during the RFP process.

Dr. Keith Meredith responded by saying that an extensive questionnaire was included during the RFP process. This questionnaire specifically asked questions pertaining to service quality such as response to appointment times, satisfaction with the carrier, physician selection and so on.

The satisfaction rate for PacifiCare ran at approximately 95% which is among the highest of the responses received by the ASRS.

5. Presentation, Discussion and Appropriate Action Regarding Additional Funding to INTECH

Mr. Gary Dokes, Chief Investment Officer, explained as a part of the ASRS' large cap equity class review, five active investment managers were selected and funded in December 2002, including two large cap growth managers, INTECH and Goldman Sachs Asset management (GSAM). At the time of manager selection and determination of funding allocation, the Investment Review Committee allocated INTECH a smaller mandate compared to GSAM, due to INTECH's highly mathematically complex nature of their investment approach. This allowed the ASRS to, after a period of time, review INTECH's performance and investment process.

Since their January 1, 2004 inception date, INTECH has produced consistent excess returns for five quarters. Mercer Investment Consulting assigned INTECH their highest manager rating of A3 which denotes an above-average probability of benchmark out-performance. Therefore, the IRC is recommending the re-allocation of approximately \$112 million to INTECH from GSAM which would result in both managers having equal current market values as compared to the time of funding each large cap growth portfolio.

Motion: Dr. Keith Meredith moved to approve reallocation of approximately \$112 million to INTECH from Goldman Sachs Asset Management.

Mr. Lawrence Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding whether the ASRS and ASRS Members have Adequate Protection Against Delinquent Employers

Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, stated that a review of current laws, procedures and internal controls shows that members are generally well protected from delinquent employers, including charter schools. Although it is possible for member contributions to be lost if a school goes out of business, the likelihood is small. Therefore, the ASRS does not recommend action at this time.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Vision Statement

Mr. Paul Matson, Director, provided a presentation on the ASRS' Vision and Values. Mr. Matson began his presentation by providing the reason it is important for the ASRS to have vision and values. The reason is to provide a homogeneous and relatively stable understanding by employees, management, trustees, and others of the long-term vision that the ASRS is striving to achieve or maintain, and the cultural parameters within which to operate.

Mr. Matson stated that the ASRS' mission is clearly stated in state statute, A.R.S. §38-712 (A) ASRS Purpose; trust fund. Therefore, it is not necessary to create a separate mission statement. It is however, necessary to develop a current vision and values statement. Currently, the ASRS' staff vision is as follows:

...to be one of the nation's leading retirement plan administrators and financial services institutions by the year 2007.

The ASRS' current principles and values are stated as follows:

The ASRS is an organization that:

- *makes member satisfaction its chief product*
- *is service-based, and performance-oriented*
- *seeks continuous improvement of services, processes, and programs*
- *takes advantage of relevant technology to maximize productivity*
- *communicates with and is responsive to members, employers and outside entities*
- *emphasizes teamwork and total staff participation*
- *is committed to ongoing staff development and equitable compensation*

Mr. Matson recommended the following modified vision:

The ASRS will constantly strive toward being one of the nation's leading state benefit plan administrators in terms of benefit services delivered, informational and educational services provided, funded status secured, investment performance obtained, and operational efficiencies achieved.

To achieve this, the ASRS will strategically position itself to be able to allocate resources in the most efficient manner to focus on core services to its members. Strategic positioning will also focus on ensuring actuarial and operational fiscal integrity, as well as the equitable allocation of costs and benefits.

Mr. Matson recommended the following modified values:

The following values will form the core of the ASRS' organizational culture:

Service: An excellence-in-service orientation to active, inactive, and retired members, beneficiaries, employers, and other constituent groups will permeate the organization.

Professionalism: A professional organizational environment will be supported which will ensure that respectful and appropriate demeanor is maintained. Continued recruitment of a highly professional workforce will be prioritized.

Improvement: An objective of continuous improvement will drive the organization toward constantly enhanced efficiencies.

Diversity: Engagement of diversity by the appreciation, recognition, and support for all people will be fostered and will propel the agency to ever greater achievement.

Results: A results-oriented approach to business will energize the organization.

The next step in the long-term planning process is the scheduled Strategic Analysis meeting on July 16, 2004, followed by a meeting during the fourth quarter of 2004 for the development and modification of the ASRS' operational, investment and external goals. Implementation and feedback will then occur.

Members of the ASRS Board suggested some changes to the wording of the proposed Vision and Values. Mr. Karl Polen, Chairperson, further suggested that any Board Trustee who has proposed changes to this document submit amendments to Mr. Matson by close of business on June 25, 2004. This will be further discussed and finalized at the July 16, 2004 Board meeting.

8. Presentation, Discussion and Appropriate Action Regarding the Election of Board Officers

Motion: Mr. Lawrence Trachtenberg moved to appoint Dr. Keith Meredith as the Chairperson of the ASRS Board for fiscal year 04/05.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Motion: Mr. Trachtenberg moved to appoint Mr. Karl Polen as the Vice Chairperson of the ASRS Board for fiscal year 04/05.

Mr. Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Polen had to leave the meeting so he turned it over to Dr. Meredith.

9. Director's Report

The Director had no additional comments.

10. Possible Presentation and Discussion Regarding the Board Committee Updates

Dr. Keith Meredith, Chairperson, External Affairs Committee, stated that there were approximately 27 items to be considered for legislative action during the next session. These items will be reviewed and discussed in the future. Additionally, the appeals process will be

under review along with codifying this process into a rule. A presentation will be scheduled for the future.

11. Call to the Public

None.

12. The next ASRS Board meeting is scheduled for Friday, July 16, 2004, at 9:30 a.m., at Northern Arizona University, Facility Services Conference Room A, 575 Pine Knoll Drive, Flagstaff, Arizona 86011.

13. Adjournment of the ASRS Board

Dr. Meredith adjourned the June 18, 2004 Board meeting at 9:53 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date